Education Planning

Comparing Education Savings Alternatives

	529 Savings Plan	Coverdell Education Savings Account (ESA)	Custodial Account (UTMA/UGMA)	Qualifying U.S. Savings Bond	Traditional or Roth IRA
Ownership & Control of Account	Account owner maintains control.	Generally, account owner controls ESA until beneficiary attains the age of majority unless otherwise indicated on the ESA application. Check with your ESA provider for more information.	Custodian (i.e. a parent or another adult) controls until age of termination (as defined by state law).	Owner must be at least 24 years old. When using bonds for your child's education, the bonds must be registered in your name and/or your spouse's name. Your child can be listed as a beneficiary on the bond, but not as a co-owner. When using bonds for your own education, the bonds must be registered in your name.	Traditional and/or Roth account owner maintains control.
Guidelines for Use	May be used for qualified education expenses at any post-secondary schools participating in the U.S. financial aid program or a registered apprenticeship program. Qualified expenses include tuition, fees, books, supplies and equipment, as well as room and board if the student is enrolled at least half time in a degree program. Up to $10,000 per year may also be used for K-12 tuition expenses at public, private or religious schools, and up to $10,000 may be used for repayment of student loan debt.	May be used for qualified elementary, secondary or higher education expenses incurred by the time beneficiary turns age 30. May also be used for K-12 tutoring, computer equipment, room and board, uniforms and extended day programs.	If used before age of termination, must be used for benefit of the minor. No restrictions on use when under control of beneficiary.	May be used for qualified higher education expenses (does not include books, fees, or room and board) at any post-secondary schools participating in the U.S. financial aid program. Qualified higher education expenses must be incurred during the same tax year in which the bonds are redeemed. Also, may use funds to make a contribution to a 529 plan or Coverdell ESA.	May be used for qualified higher education expenses. These include tuition, fees, books, supplies and equipment, as well as room and board if the student is enrolled at least half time in a degree program. The qualified higher education expenses must be for you, your spouse, your children or your grandchildren.

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Change of Beneficiary (Recipient)	Can change beneficiary tax-free and penalty-free to a member of the designated beneficiary's family. 529 education savings plans can also be moved tax-free and penalty-free to a 529 ABLE plan for a disabled beneficiary or member of the designated beneficiary's family up to the annual contribution limit.	Can change beneficiary tax-free and penalty-free to a member of the designated beneficiary's family.	Not permitted. Contributions are irrevocable gifts to the child.	Any person may be named as beneficiary without affecting the eligibility of the bond for exclusion.	Ownership changes are not permitted.
Adjusted Gross Income (AGI) Limit	None	Eligibility for ESA phased out with modified AGI: Single: $95,000-$110,000 Joint: $190,000-$220,000	None	Interest exclusion is limited if your modified AGI is: Single or Head of Household: $96,800 to $111,800 (2024) $91,850 to $106,850 (2023) Married/ Joint: $145,200 to $175,200 (2024) $137,800 to $167,800 (2023)	Eligibility for Traditional IRA deduction phased out with modified AGI of: Single or Head of Household: $77,000 - $86,999 (2024) $73,000 - $82,999 (2023) Joint/Plan Participant: $123,000 - $142,999 (2024) $116,000 - $135,999 (2023) Joint/Not Plan Participant: $230,000 - $239,999 (2024) $218,000 - $227,999 (2023) Eligibility for Roth IRA contributions phased out with AGI of: Single or Head of Household: $146,000 - $160,999 (2024) $138,000 - $152,999 (2023) Joint: $230,000 - $239,999 (2024) $218,000 - $227,999 (2023)

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Annual Contribution Limit	Gifts up to $18,000 (2024) or $17,000 (2023) per year ($36,000 in 2024 or $34,000 in 2023 per couple) to child's 529 account without being subject to federal gift tax treatment. Accelerated five-year gifts limited to $90,000 (2024) or $85,000 (2023) lump sum per donor, per beneficiary in a single year ($180,000 in 2024 or $170,000 in 2023 for married couples). Additional gifts during the five-year period will trigger gift tax consequences. Lifetime cap applies and varies according to state plan.	$2,000 per designated beneficiary under 18. Contributions can only be made if the individual's modified AGI is less than $110,000 ($220,000 for married couples filing a joint return). Contributions are reduced when modified AGI is between $95,000- $110,000 for individuals ($190,000-$220,000 for married couples filing a joint return).	Gifts up to $18,000 (2024) or $17,000 (2023) per year ($36,000 per couple in 2024; $34,000 in 2023) to child's UTMA/UGMA account without being subject to federal gift tax treatment.	Bonds you buy for the Educational Savings Bond Program are subject to the limit of $10,000 face value (equal to the purchase price) per series per Social Security Number per year, just like any other purchase. There is no limit on the amount of bonds that you can accumulate over a lifetime.	Traditional IRA: $7,000 (2024) / $6,500 (2023) or 100% of earned income, whichever is less (minus Roth IRA contributions). Roth IRA: $7,000 (2024) / $6,500 (2023) or 100% of earned income, whichever is less (minus traditional IRA contributions).
Taxation of Earnings and Distributions When Used for Qualified Education Expenses	Earnings grow federal income tax deferred. Qualified distributions are federal income tax-free. State tax treatment may vary.	Earnings grow federal income tax deferred. Qualified distributions are federal income tax-free. State tax treatment may vary.	Earnings are taxable and reported under the child's social security number. Note: The kiddie tax generally applies to children under age 19 and to full-time students under age 24.	Qualified taxpayers can exclude from their gross income all or part of the interest paid upon the redemption of eligible Series EE and I Bonds issued after 1989 (see AGI limit above). Bonds purchased and owned by the child do not qualify for the interest exclusion.	With a traditional IRA, the taxable amount of the distribution is subject to income tax. With a Roth IRA, contributions are distributed tax-free, but earnings are generally subject to income tax if withdrawn before having the Roth for five years and reaching age 59 ½. The taxable portion of traditional or Roth distributions used for qualified higher education expenses is exempt from the 10% early distribution penalty.

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Taxation and Penalty for Non-Qualified Use	Earnings portion of nonqualified withdrawals are taxed as ordinary income to the designated beneficiary and subject to a 10% penalty (earnings only). Penalty-free withdrawals permitted in the event of scholarship, death, or disability of the beneficiary. Distributions are prorated.	Earnings portion of nonqualified withdrawals are taxed as ordinary income to the designated beneficiary and subject to a 10% penalty (earnings only). Penalty-free withdrawals permitted in the event of scholarship, death, or disability of the beneficiary.	Not applicable.	Minimum term of ownership: 1 year Early redemption penalties: Before 5 years, forfeit 3 most recent months' interest; After 5 years, no penalty. You must use both the principal and interest from the bonds to pay qualified expenses in order to exclude the interest from your income. If the amount of eligible bonds you've cashed during the year exceeds the amount of qualified educational expenses paid during the year, the amount of excludable interest is reduced.	Taxable portion of withdrawals are taxed as ordinary income. A 10% penalty generally applies to withdrawals before age 59 ½. Certain exceptions apply.
Impact on Free Application for Federal Student Aid (FAFSA)	Considered an asset of the account owner. If student is both owner and beneficiary, more negatively affects FAFSA's SAI than if parent owned. If owned by someone other than a parent or the student, no impact on FAFSA.	Considered an asset of the account owner. If student is both owner and beneficiary, more negatively affects FAFSA's SAI than if parent owned. If owned by someone other than a parent or the student, no impact on FAFSA.	Considered an asset of the child (beneficiary).	Considered an asset of the registered owner.	Generally, not counted as an asset.

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Rollovers and Transfers	Account owner can move funds from one state's 529 savings plan to another states' 529 plan one time within a 12-month period for the same beneficiary. Rollovers to a different beneficiary who is an eligible family member are permitted any time. They are not subject to the one-rollover-per-year rule. Rollovers may also be made from a 529 savings plan to a 529 ABLE account for a disabled designated beneficiary or member of the beneficiary's family, up to the annual funding amount permitted in the 529 ABLE account. Beginning in 2024, long-term 529 savings plan balances may be rolled over to a Roth IRA up to a lifetime limit of $35,000. The Roth IRA rollovers cannot be more than the annual Roth IRA contribution limit or made from 529 contributions or earnings from the past 5 years. Earned income is required, but Roth IRA AGI limits are waived.	Rollovers and transfers between ESAs are permitted. Rollovers are limited to once in a 12-month period. Direct transfers between trustees or custodians are unlimited. Rollovers may also be made from an ESA to a 529 savings plan. The withdrawal from the ESA is tax-free if contributions are made to a 529 education savings account with the same account owner and beneficiary within 60 days and in the same taxable year.	Transfers from custodial accounts to a 529 savings plans are generally permitted, but the 529 savings plan must be established as a custodial 529 plan for the same designated beneficiary. (No change of beneficiary is permitted.) At the age of majority (either 18 or 21, depending on state law) the student will become the account owner.	Qualifying U.S. savings bonds can be used to fund a 529 savings plan or ESA.	Traditional or Roth IRAs cannot generally be transferred or rolled over to a tax-advantaged 529 savings plan or ESA without tax implications.

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Things to Consider Before Doing a Rollover	529 plan distributions that do not meet the conditions above would be non-qualified withdrawals. The earnings distributed in non-qualified withdrawals are subject to taxation and the 10% penalty. There may be fees associated with changing plans. If a tax deduction was taken for an in-state plan and the plan is moved to another state, the state may "recapture" the tax and require repayment of the deduction previously received.	ESAs can be used for a variety of K-12 and college expenses. 529 savings plans can only be used for K-12 tuition expenses (up to $10,000 a year) in addition to college or other post-secondary education expenses. ESAs generally have broader investment options and investment transactions can be made at any time. 529 savings plans typically offer a limited menu of mutual funds and investment changes can only be made twice a year. If rolling an ESA into a 529 plan, keep records confirming the ESA distribution and 529 savings plan contribution are done in the same calendar year and completed within 60 days. State law will determine if an in-state tax deduction is available for the 529 savings plan contribution and who can claim that deduction (the designated beneficiary or the account owner).	If rolling a UTMA/UGMA to a 529, keep in mind that 529 savings plans accept only cash deposits. Any investments in the custodial account must be liquidated first. Capital gains taxes would apply on the liquidation. State law will determine if an in-state tax deduction is available for the 529 savings plan contribution and who can claim that deduction (the designated beneficiary or the account owner). Consult with a tax professional before moving a custodial account to a 529 plan.	529 savings plan and ESA contributions must be made in cash. When the bonds are cashed in, you may be able to exclude the bond interest from income taxes (see AGI limit above). Consult with a tax professional for details.	If using IRAs for education expenses, Traditional IRA distributions are generally taxed as ordinary income when received. A 10% federal tax penalty may also apply if the distribution is taken prior to age 59 ½. The tax penalty does not apply if the distribution is for qualified higher education expenses of the account owner, spouse, children or grandchildren. Roth IRA distributions that are qualified (after 5 years and reaching age 59 ½) are income tax free regardless of what the distributions are used for. Non-qualified Roth distributions are taxed on the earnings distributed. Earnings are also generally subject to a 10% penalty. The 10% penalty does not apply if Roth IRA distributions are used for qualified higher education expenses of the account owner, spouse, children or grandchildren.

IMPORTANT DISCLOSURES An investment in a 529 plan will fluctuate such that an investor's shares when redeemed may be worth more or less than the original investment. Investors should carefully consider a 529 plan's investment objectives, risks, charges and expenses before investing. This and other important information can be found in the 529 plan issuer's official statement, which should be read carefully before investing. Benjamin F. Edwards is not a tax advisor. Please consult your accountant to discuss the tax implications of the products discussed in this report before investing. In providing this information to you, neither Benjamin F. Edwards nor our financial advisor, is acting as a "fiduciary" under the Employee Retirement Income Security Act of 1974 (ERISA) and it should not be considered individualized investment advice or an investment recommendation. Due to the scope and complexity of the tax law changes enacted in December 2017, it is expected that the IRS will be providing additional guidance over the coming months. Technical corrections and additional clarification are common in such situations, and if any are issued, we will update our client materials and resources accordingly. However, given the possibility of updated guidance and corrections to the tax law, it's important that any questions about your individual tax situation be directed to your tax professional.